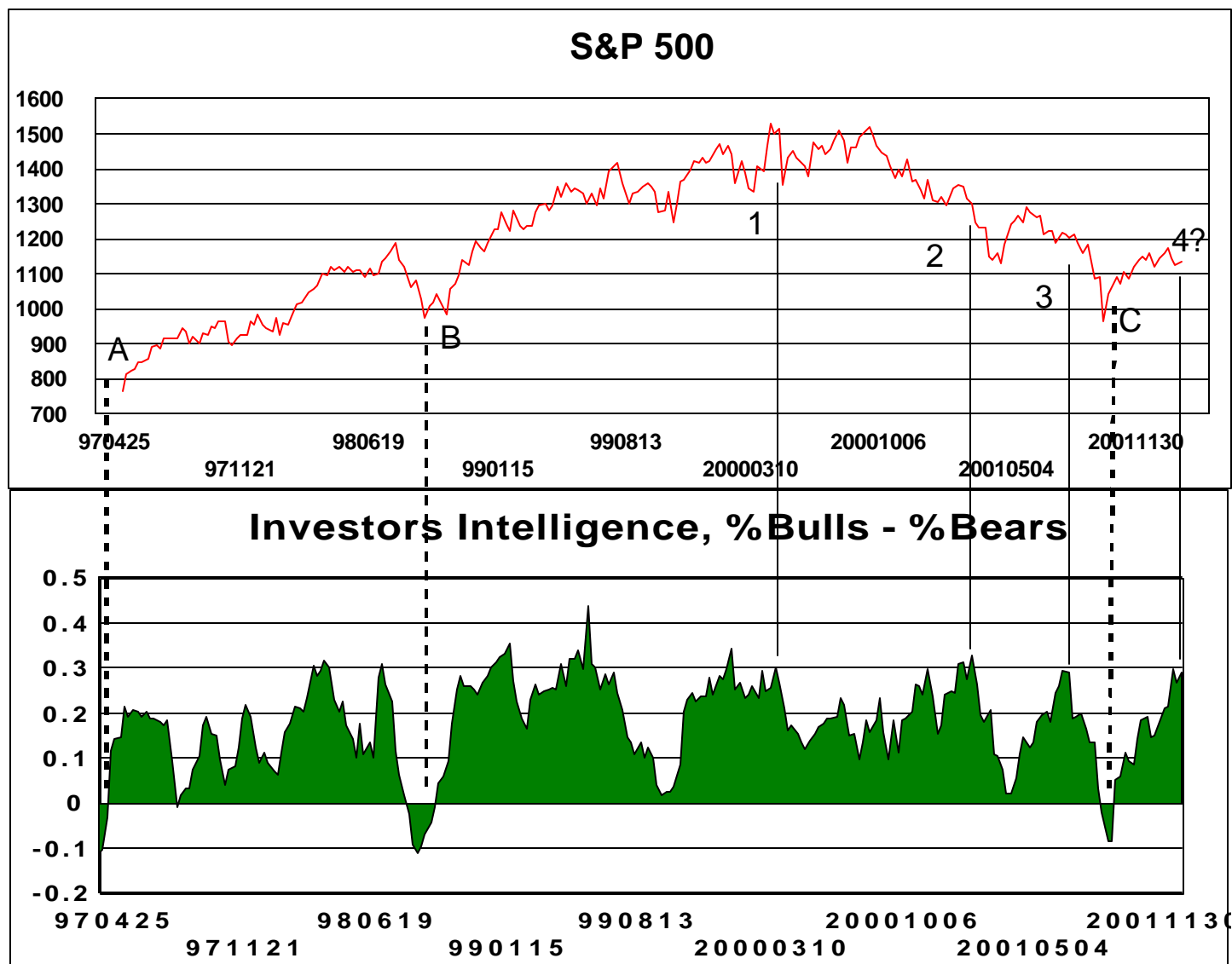


Investment Advisor Sentiment now dangerously bullish...

by Howard Spieler



Investors Intelligence is an investment newsletter that for over 30 years has surveyed 130 investment advisors and tracks their opinions of the stock market. Advisors are rated as bullish, bearish or anticipating a correction. This survey - and the data that is collected - is an example of how we can use opinions (in this case, investment professionals) as a *contrary* indicator. Periods of extreme and predominantly bullish or bearish market sentiment tend to suggest market action opposite the group consensus. Extreme bullishness tends to come before the market weakens; extreme bearishness has provided excellent entry points for the market the last couple of years.

The lower chart shows the percentage of investment advisors who are bearish subtracted from the percentage of investment advisors who are bullish. For purposes of this chart, we ignored the percentage who responded "correction". When the resulted plotted line is above zero, more advisors are bullish than bearish. When the points are below zero, advisors are net bearish. Points 1,2,3 and 4 signify the last four times sentiment readings reached an extreme bullish reading (in this example net 30%). As the chart indicates, points 1, 2 and 3 all saw a decline in the S&P 500 following the time the readings reached the 30% level (30% representing the difference between bullish advisors and bearish advisors, not 30% of advisors rating bullish). We have recently surpassed the level here in 2002; with the interest rate cuts probably finished this seems to be a high risk area for the stock market.

Interestingly, this indicator has performed better as a stock market bottom finder rather than as an indicator of market tops. Since 1997, the percentage of bears has been greater than the percentage of bulls on three separate occasions (labeled as Points A, B and C). All three turned out to be excellent buying junctures for investors, mid 1997, fall 1998, and November of this past year.